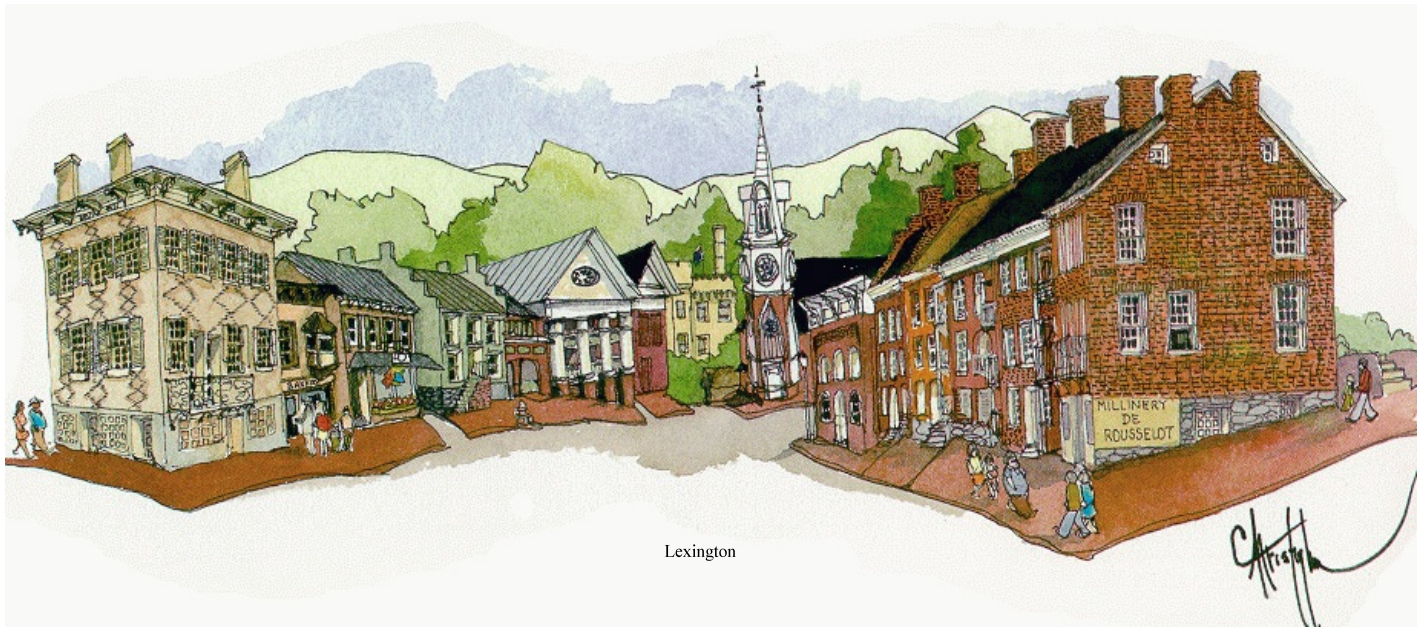


Government Chapter

City of Lexington Comprehensive Plan

October, 2010



GOVERNMENT

THE CITY

Lexington is one of the smallest cities in the Commonwealth of Virginia. A city is a permanent, organized community of defined boundaries and has specified and limited authority established by the state in which it is located including taxing and regulatory powers. Legally, the city is an incorporated unit of government with elected leaders; however, the city exists separately and independently from the individuals who head it.

As a city, Lexington has certain governmental responsibilities. Cities must meet the needs of their citizens, providing goods and services such as police and fire protection, water and other utility services, parks, recreation programs, street and other public works improvements, education and human development programs. Funding for these goods and services is by taxes, service charges, special assessments, fees and other sources of municipal revenues. A fundamental purpose of the city as a governmental entity is to help its citizens develop a vibrant, healthy, fiscally sound community.

LOCAL GOVERNMENT IN VIRGINIA

As a city, Lexington cannot act alone, and its actions are limited. Local governments such as cities and counties are subordinate parts of state government and are not considered to be autonomous within the federal system. In fact local governments are totally subservient to their state constitutions and state governments.

The organization and powers of Virginia local government are almost entirely determined by the state constitution and by state law. The only powers counties, cities and towns can exercise are those specifically granted to them by the Virginia General Assembly: Virginia courts recognize no inherent local government powers. This is the legal doctrine known as “Dillon’s Rule”.

Cities frequently partner with the state in exercising mutual responsibilities. Cities cooperate with state governments in providing such services as law enforcement, health protection, highway construction and maintenance, and pollution abatement.

Virginia local governance is based primarily on the county and the independent city. Unlike other states, Virginia’s cities are not located in counties. Rather, Virginia’s 39 cities and 95 counties are territorially separate; however, towns are legally part of the counties in which they are located. While the idea of independent cities in Virginia dates back almost to its beginnings, cities were made fully independent of counties by the Virginia Constitution of 1902.

THE INDEPENDENT CITY

Like all but one of Virginia's cities, Lexington uses the council-manager form of government and has an elected city council as the governing body. The mayor is elected by the voters. The mayor's principal responsibility is presiding over council meetings and representing the City.

The direction of the City's daily business is the responsibility of the City Manager. The City Manager is generally a professional with a master's degree in an appropriate specialty. In general, the council sets City policies and the administrator sees that they are carried out efficiently and effectively. The manager oversees the daily operations of City government, informs the council and the citizens about City government matters, supervises City personnel, manages City finances, oversees enforcement of local ordinances and sees that City operations are in compliance with relevant state and federal law. Like other Virginia cities, Lexington has elected constitutional officers: a Treasurer, Commissioner of Revenue, Sheriff, Clerk of Court and Commonwealth's Attorney.

While cities have more power and are responsible for raising more of their own revenue than counties, over the past few years, the differences in powers and finances have been diminished.

THE COUNTY

The first counties were created by the General Assembly in the 1630's as shires. Present-day counties are their direct descendants.

The governing body is the board of supervisors. In most counties, the board of supervisors appoints the county administrator, who is the chief executive of the county government and has the responsibility of overseeing all administrative matters not assigned to one of the constitutional officers. These constitutional officers are the Sheriff, the Treasurer, the Commissioner of Revenue, the Clerk of the Court and the Commonwealth's Attorney.

THE TOWN

Virginia's towns vary widely in size and governmental organization; however, they all have an elected town council that acts as the governing body. Large towns may be larger than many independent cities and have professional managers and an extensive array of services. Small towns may use a mayor-council form of government which relies on the mayor and council to take care of a limited set of municipal concerns.

The distinctive feature of towns is that, unlike independent cities, they are also part of a county. Consequently, some services and governmental functions within the town will be performed by the county, and town residents are citizens of both town and the county, paying taxes and voting in both jurisdictions.

ORGANIZATION OF LEXINGTON CITY GOVERNMENT

The legislative and policy making authority for Lexington reside with the Mayor and City Council. The City has six council persons elected at large and a popularly elected mayor, with all candidates running on a non-partisan basis. The mayor sets the agenda for council meetings, presides over those meetings, casts the deciding vote in the event of a tie, and represents the City in a ceremonial capacity. Powers vested in the City Council include the power to levy taxes, to pass ordinances relating to municipal affairs (subject to the limitations imposed by the constitution and general laws of the Commonwealth of Virginia and the City Charter), to adopt a City budget, authorize the issuance of bonds by a bond ordinance, appoint and remove the City Manager, City Clerk, City Attorney and City Auditor and appoint members to the various city boards and commissions.

The City Manager, appointed by the City Council, serves as the chief executive officer. The manager is responsible for executing the policy decisions of the council under its direct supervision. The manager oversees the municipal departments which provide services to the City. These include public works, planning and development, finance, utilities processing which operates the City's water and sewer plants, police, fire and emergency medical services. The Manager also oversees a number of smaller offices in the City. The manager is responsible for appointing the City's department heads.

The City presently has a number of key staff who have served the community for many years who will be retiring over the next several years. The loss of the institutional knowledge possessed by these individuals will create difficulties for the new employees who will replace them. It is important that the City plan for this transition to provide a continuity of operations within the City's staff organization.

RECOMMENDATION: The City Manager and City Council should develop a plan to provide for an orderly transition for key staff members.

City voters also elect a Treasurer and Commissioner of the Revenue to four year terms. The Treasurer provides for the collection of all City revenues, the disbursement of all City funds, and the investment of City funds based on recommendations from the Finance Director and the City Manager. The Commissioner of the Revenue provides real estate, personal property and business tax assessments and Virginia income tax administration.

The City shares its courts and courts related officers with Rockbridge County. Since it shares the circuit court, it also shares the constitutional offices of Clerk of the Circuit Court, Sheriff, and Commonwealth's Attorney with the county. The City also shares the General District Court, and a Juvenile and Domestic Relations Court with the County by cooperative agreement as well as both adult and juvenile probation offices. The Sheriff of the County is also elected as Sheriff of the City.

The City also supports a number of services provided by regional agreements with other local governments. These include a library system, a regional jail, a central emergency

communications center, a community services board (providing mental health, mental retardation and drug abuse services), a tourism office, the social services department, and a regional water and wastewater plants.

The City Council establishes and appoints members to various boards and commissions and charges them with specific responsibilities. Members of boards and commissions are citizens who voluntarily serve the citizens of Lexington. Some boards are local and some are regional in nature. In certain instances members of City Council serve on these boards to ensure closer liaison. Boards provide policy and operational recommendations to the City Council to assist in its decision making and in limited instances, make final decisions themselves. The City's local boards and commissions are:

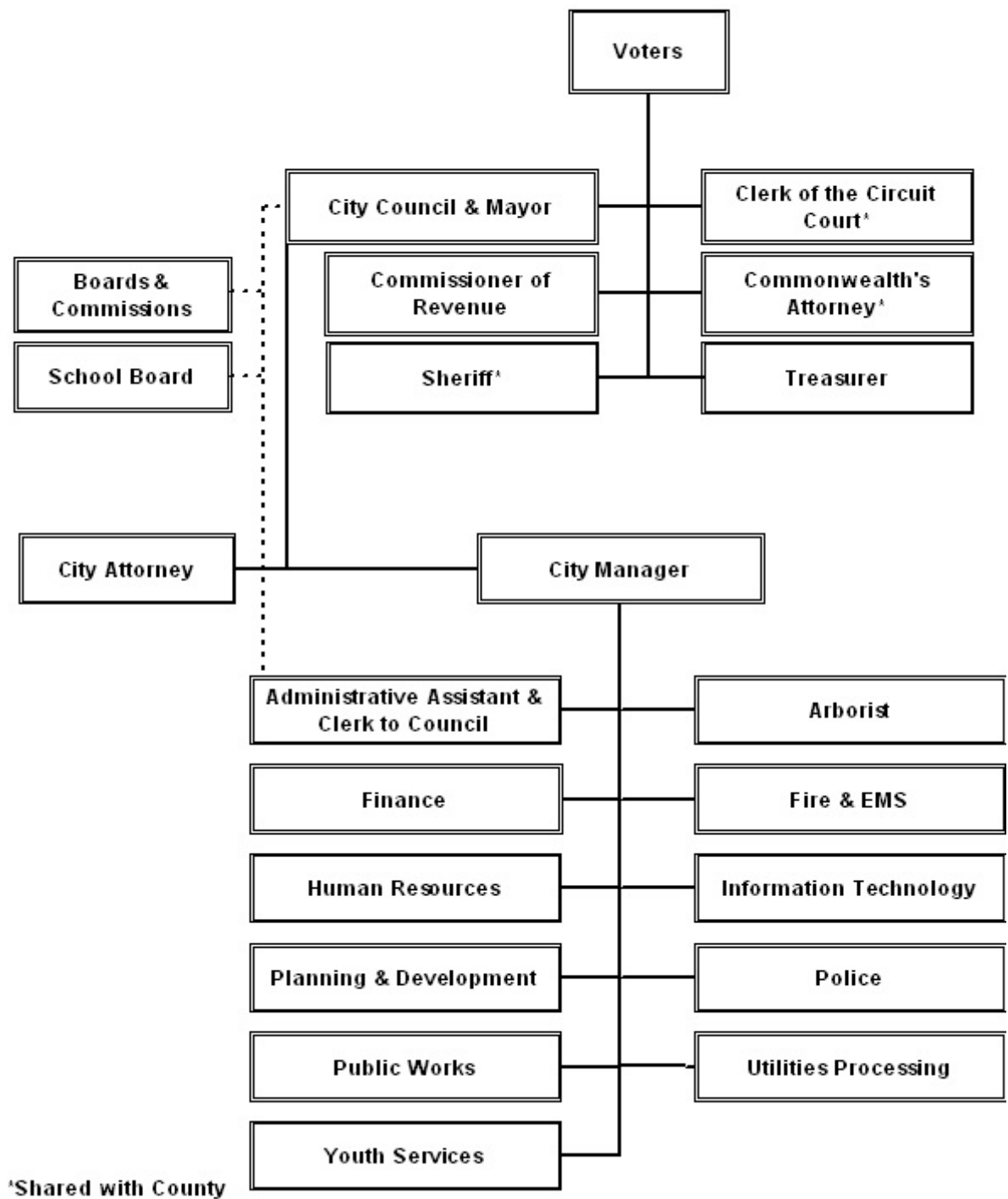
- **School Board:** A five-member board, established by the state constitution, to oversee the management and operation of the City's school system. The School Board hires the Superintendent and all other school system employees.
- **Planning Commission:** A seven-member commission that advises the City Council on all land-use and zoning issues facing the City. This body approves all site plans and makes design decisions in certain zones. The Commission develops and recommends the City's Comprehensive Plan to City Council.
- **Architectural Review Board:** A five-member board that reviews and approves new construction, demolition, and proposed design features on all buildings in the historic downtown area as well as demolition and new construction in the City's two residential historic districts.
- **Cemetery Advisory Board:** A six-member board that advises staff and City Council on issues pertaining to the operation and maintenance of the City's two cemeteries.
- **Board of Equalization:** A four-member board that sits following every general real estate re-assessment to hear appeals from property owners.
- **Industrial Development Authority:** A seven-member authority that issues tax-exempt industrial development bonds to enhance economic development opportunities.
- **Threshold:** A seven-member board that provides advice to City Council and staff concerning the need for and ways to address workforce housing as well as overseeing the operation of the City's low-income housing program.
- **Tree Board:** A five-member board that provides advice to the City Council and City Arborist on the management of the City's trees.
- **Board of Zoning Appeals:** A five-member board that hears and acts on requests for variances from the terms of the City's Zoning Ordinance and on appeals of zoning decisions made by the Zoning Administrator.

The City Council also appoints members to a number of regional organizations such as the Rockbridge Area Community Services Board, the Dabney Lancaster Community College Board, the Regional Disabilities Board, the Rockbridge Regional Library Board, the Maury Service Authority, the Regional Tourism Board, the Social Services Board, the Total Action Against Poverty Board, the Regional Jail Board and the Central Dispatch Board.

Table 10-1 shows an organizational chart of the City of Lexington government.

CITY OF LEXINGTON

Organizational Chart



¹Shared with County

.....Appointing authority only

In 2008, the City conducted a community wide citizens survey to ascertain citizen's attitudes toward quality of the services provided and feedback on additional services that should be considered. This type of citizen feedback is an important tool to monitor the attitudes of our residents and should be performed every 3 to 4 years.

GOAL: The City should continuously improve the efficiency and effectiveness of municipal services provided by City staff and regional entities.

CITY FINANCES

REVENUES

The City's ability to meet the demands and expectations of its citizens is, to a significant extent, dependent on the extent of the community resources which can be made available to support those demands. The City derives its power to tax from the State constitution and statutes. A tax or user fee may not be imposed without specific state authorization.

Table 10-2 reports the amount of revenue collected from the several sources utilized by the City for fiscal years 2007 through 2009.

- **Property Taxes** - made up of real estate and personal property taxes, are the City's largest revenue source comprising 34% of total general fund revenues.
- **Other Local Taxes** - consisting of sales taxes, consumer utility taxes, business license taxes, short term rental taxes, franchise license taxes, motor vehicle taxes, bank stock taxes and food and lodging taxes is the second largest revenue source, making up 23% of total revenue.
- **Revenues from the Use of Money** - consists of revenue generated from interest on excess City funds invested in interest bearing accounts.
- **Charges for Service** - consists of user fees such as refuse fees, swimming pool admissions, billing for EMS services and the operation of the City cemeteries.
- **Miscellaneous Revenue** - includes funds paid to the City by Rockbridge County under the terms of the Revenue Sharing Agreement and voluntary payment in lieu of taxes made by Washington and Lee University.
- **Recovered Costs** - represents payments generated by joint services agreements with Rockbridge County and in some instances with Buena Vista for the provision of City operated services included fire and rescue, dispatch, recreation and tourism.

- **Revenue from the Commonwealth** - includes support for local law enforcement, motor vehicle and mobile home taxes, recordation taxes, state support for the Treasurer, Commissioner of Revenue and Electoral Board, the state share of public assistance, street maintenance payments, the state portion of the personal property tax and state grants for such things as fire safety, emergency medical services and funds for the arts. In FY 2009, the State funded 13% of Lexington's general fund revenues.

**Table 10-1
General Fund Revenues
by Fiscal Year**

General Fund Revenues						
	FY07		FY08		FY09	
Category	Amount	%	Amount	%	Amount	%
Property Taxes	\$3,914,166	30%	\$4,144,129	31%	\$4,438,289	34%
Other Local Taxes	\$2,914,381	22%	\$3,078,467	23%	\$3,060,864	23%
Permits & Licenses	\$180,066	1%	\$108,095	1%	\$79,233	1%
Fine & Forfeitures	\$103,998	1%	\$106,274	1%	\$124,101	1%
Rev. from use of Money ¹	\$1,018,006	8%	\$724,035	5%	\$221,502	2%
Charges for Services	\$829,096	6%	\$777,319	6%	\$847,968	6%
Misc. Revenue	\$1,999,223	15%	\$2,282,019	17%	\$2,381,840	18%
Recovered Costs ²	\$208,387	2%	\$254,618	2%	\$179,705	1%
State	\$1,778,932	14%	\$1,922,960	14%	\$1,713,063	13%
Federal ³	\$166,870	1%	\$41,123	0%	\$108,404	1%
Totals	\$13,113,125	100%	\$13,439,039	100%	\$13,154,969	100%

Rev. from use of Money¹ - Money from the Bonds issued for the construction of the courthouse were invested until they were required to pay the City's share of the cost. As this money was drawn down, the interest payments became significantly less. The City also invests its cash reserves including the unappropriated fund balance. Interest rates declined from 5.35% at the beginning of FY 07 to 0.56% at the end of FY 09.

Recovered Costs² - The primary source of revenue comes from payments from Rockbridge County for fire and rescue services provided by the City to county residents. Payment rates were renegotiated during the period of time reflected in the table.

Federal³ - Funds in this category are payments and grants received from the federal government. Each year the City receives approximately \$40,000 to support social services programs for City residents. The balance reflects grants from the federal government. Grants have been received from agencies such as the Department of Forestry, Environmental Protection Agency, Federal Highway Administration and Homeland Security

EXPENDITURES

Table 10-2 documents actual expenditures for fiscal years 2007 through 2009. The categories of Public Safety, Public Works and Education (the general fund support for the City school system) are the largest cost centers to the City. The percentage of the overall budget that each category represents fluctuates depending on the amount of money spent each year for equipment and capital projects.

Table 10-2
General Fund Expenditures
by Fiscal Year

General Fund Expenditures						
Category	FY07		FY08		FY09	
	Amount	%	Amount	%	Amount	%
General Govt.	\$1,024,446	8%	\$1,296,758	9%	\$1,174,738	8%
Judicial Adm.	\$162,997	1%	\$208,306	1%	\$203,424	1%
Public Safety	\$2,706,499	23%	\$2,420,283	18%	\$2,688,801	18%
Public Works	\$2,693,693	23%	\$2,744,448	21%	\$2,755,075	18%
Health & Welfare	\$569,253	5%	\$628,278	4%	\$565,015	4%
Education	\$1,892,922	17%	\$2,186,670	16%	\$2,553,320	17%
Leisure Services ¹	\$412,273	3%	\$1,023,055	7%	\$1,287,543	9%
Community Dev.	\$767,822	6%	\$756,482	5%	\$696,579	5%
Non-Departmental ²	\$404,902	3%	\$1,163,392	8%	\$1,745,045	12%
Debt Service	\$1,429,796	11%	\$1,607,612	11%	\$1,263,770	8%
Totals	\$12,064,603	100%	\$14,035,284	100%	\$14,933,310	100%

Leisure Services¹ - These expenditures have varied significantly because of unique, one time expenditures. These include the purchase of the Peebles property to provide access to the Moore's Creek tract to enable it to be sold to the state, funds spent on improvements to Jordan's Point, purchase of additional property for Brewbaker field and the construction of the indoor swimming pool.

Non-Departmental² - The increases shown for FY08 and FY09 reflect the purchase of a new fire truck in each of these years.

GENERAL FUND BALANCE

A balance exists in the general fund when revenues exceed expenditures for a fiscal year. The balance increases as the excess revenues for more than one fiscal year accrue to the next. A positive fund balance gives the City revenues with which to operate over the course of the fiscal year and allows for short term fluctuations in either projected revenues or expenditures without having to adjust the tax rate. Without a positive fund balance the City might have to borrow money for short periods of time when expenses exceed revenues. A significant positive fund balance may also allow the City to finance small scale capital projects without having to issue bonds to finance their construction.

At the end of FY2009, the General Fund balance was \$6,842,571. A portion of this balance is restricted for future specific uses and a portion is unrestricted and available for the above mentioned purposes. Examples of restricted funds are those set aside for future replacement of equipment and donations for specific purposes, such as fire and rescue.

GOAL: Maintain no less than 20% of general fund operating expenses as unrestricted fund balance.

BONDED DEBT

As of FY2011, the City will have just over \$20 million in principal remaining on two projects' financing. The first was the \$12 million borrowed for the City's share of the new regional courthouse and parking deck, and the second, the \$9 million borrowed in two financings to pay for the Lylburn Downing Middle School and Community Center renovations. State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The debt limitation for the City as of FY09 is just over \$60 million, which greatly exceeds its actual debt.

RECOMMENDATION: Continue to fund small scale capital projects with general fund dollars to minimize bonded debt.

The City maintains an "A1" rating from Moody's for general obligation debt, but it has been many years since the City has been rated. The most recent financing has been through either state obligations or a local government pool, where risk is shared. If the City were to issue additional future debt on its own, a re-assessment of this rating would be needed.

The next major investment that the City will need to address is a complete renovation or re-construction of the Waddell Elementary School that could cost between \$8 and \$12 million. With the existing economic situation and the amount of debt presently obligated, this project will need to be deferred for a number of years.

The City has greater long term debt obligations than a review of the debt service schedule would indicate. The Maury Service Authority has issued a bond that is backed by the water revenues of both the City and County Public Service Authority for improvements to the water plant. The

balance on that bond was approximately \$1,525,000 in the fall of 2010. The debt service on these bonds is about \$195,000 per year and will not be retired until FY2021. The City's share of this debt payment is about \$124,000 a year and is funded through the water rate.

The MSA also has issued two series of bonds for the wastewater plant, with the County paying half of the debt service cost. The balance on this bond was approximately \$7,900,000 in the fall of 2010. The City is responsible for \$565,619 annually in the series that retires in FY2018, and \$163,400 per year in the issue expiring in FY2031. These costs are supported by the sewer rate.

The MSA is also considering the issuance of \$7 million in 40 year debt, through the Rural Development Agency for constructing a water loop around the City. The City's exact share of this debt has yet to be determined. Financing's for any of our other regional organizations have been retired and, at this time, no additional debt is anticipated.

FINANCIAL CONDITION

Overall, the City is in a relatively strong financial condition to meet the challenges it is facing. The City leaders have historically been conservative in their management of the City's finances and in taking on additional significant obligations. They have consistently made long-term financial decisions by not deferring costs and by investing the needed capital funds in the City's infrastructure. Except for the Waddell Elementary School, basic facilities (Rescue Squad, Fire Station, Public Works, Police, Courthouse, Community Center and Middle School) have been provided for recently. The challenge now is to provide the needed maintenance investment.

GOAL: The City should create a financial plan that would allow the School Board to either significantly renovate or construct a new Waddell Elementary School.

RECOMMENDATION: The City should budget sufficient funds to properly maintain the existing facilities and infrastructure.

The greatest immediate threat to the City's finances is the national recession and the resulting reduction in state and local revenues. The impacts of economic downturns are not usually felt in local government budgets until a year after the downturn begins. For the past year, Lexington has seen a weakening in its local revenues, but primarily due to the stability of our largest economic drivers (the two universities), our revenues have not decreased as severely as have revenues in most jurisdictions.

Our greatest challenge, immediately and in the near future, is to respond to the reductions being made in state revenues. This is being felt most severely in the school system, but also through many relatively small reductions to the programs that the state has previously supported or mandated. As yet, none of the mandates imposed by the state have been modified to reflect the reductions in financial support. The City needs to seriously evaluate the services it provides to determine whether or not they are still of a high enough priority to continue funding.

GOAL: The City must respond to reductions in support to localities being made by the Commonwealth.

RECOMMENDATION: Review State mandates which are no longer being fully funded by the Commonwealth to determine the appropriate level of local support

It is important for the City to continue to look to the long term in managing its finances. Although the City has one of the lowest real estate tax rates of the thirty nine cities in Virginia, we have the highest percentage of tax-exempt real estate in the state, and a penny on the tax rate raises only \$55,000 in additional revenues. This emphasizes the need to continue to broaden our revenue stream so that property taxes are not the only source of additional revenue.

Broadening the revenue stream could be accomplished in two principal ways: increasing the tax base, and imposing fees for some of the services rendered by the City for which there are, presently, no charges.

Increasing the tax base is one of the primary goals of the City's economic development program. Growing existing and new businesses is crucial to this effort, as is encouraging the return of existing tax-exempt properties to the tax rolls.

The City presently imposes a number of fees, the largest being billings for EMS services and solid waste collection for businesses. There are innumerable other areas where fees could be imposed for services rendered including garbage fees for residential solid waste collection, private use of park facilities, and fire and residential rental inspections.

RECOMMENDATION: The City should continue to explore possible ways to diversify its revenue sources.

The greatest financial challenges that we are facing, in addition to the recession gripping our country and the reductions in state and local revenues, are: 1) the need to invest in a new or significantly renovated Waddell Elementary School, 2) the need to provide additional space at our regional jail either through new construction or housing prisoners in other jails, 3) the need to provide a transfer station alternative to the closing of our landfill in 2012, and 4) the need to rebuild the East Nelson Street bridge. Each of these issues must be dealt with in the years to come, without compromising the low taxes and high quality of services presently provided.

FINANCIAL GOALS

Based on the analysis and discussion contained in this section, the following goals are recommended:

GOAL: The City should continue its conservative fiscal policies while realistically planning for long term service and facility needs desired by its citizens.

RECOMMENDATION: The City should continue to explore possible ways to diversify its revenue sources.

RECOMMENDATION: The City should include the identification of mechanisms to ensure that all users of City services pay their fair share of the costs of local government.

RECOMMENDATION: The City should continue to identify ways to share the cost of services and to provide services more economically by working with Rockbridge County and Buena Vista.

RECOMMENDATION: The City should continue to invest in its existing economy including the downtown and the other commercial areas to maximize its revenue potential since there is little potential for major new development in the City.

RECOMMENDATION: The City should be conservative in approving new municipal expenditures since there is little potential for significant new revenues.

ANNEXATION IN VIRGINIA

Lexington cannot expand its revenue base by annexing land. Virginia's unique concept of counties and independent cities originally assumed that as land became converted to urban uses, cities would annex such land to provide the services required when large numbers of people live in close proximity.

Annexation began to decline in the 1950's when counties in the Tidewater area became cities themselves to prevent having portions of their territory annexed and as increasingly urban and suburban counties began to exercise their domination of the State legislature. Legislation that became effective in 1987 severely limited annexation by placing a moratorium on annexation by cities. Though this legislation has had numerous sunset provisions, it has been consistently extended and it is unlikely that it will ever be repealed.

Current Virginia law still authorizes cities to annex land from surrounding counties in two ways. The first is a boundary line adjustment by agreement between a city and county. As the name implies, this is an agreement entered into between a city and county that voluntarily adjusts the jurisdiction's boundary lines. This is usually limited to small adjustments moving the lines to account for properties bisected by municipal boundaries or neighborhoods split between jurisdictions. These agreements must be approved by a judge.

The second method is citizen initiated annexations. In this method, the property owner may petition the circuit court to have their property annexed by the neighboring jurisdiction or citizens may submit petitions containing 51% of the qualified voters and 51% of the owners of real estate in the area proposed for annexation. Citizen initiated annexations are subject to review by the state

Commission on Local Government and a special three judge panel. The governing body of the affected jurisdiction may decline the annexation.

THE CITY OF LEXINGTON, ROCKBRIDGE COUNTY REVENUE SHARING AND WAIVER OF ANNEXATION RIGHTS AGREEMENT

In December of 1983 the City of Lexington notified the Commission on Local Government and Rockbridge County of its intent to initiate annexation proceedings for 686 acres of land surrounding the City. Rockbridge County announced its intention to actively challenge the proposed annexation.

The Commission on Local Government appointed a mediator to assist the two governments in negotiating a suitable settlement. In May of 1984 an agreement was reached. After reviewing the agreement, the Commission on Local Government recommended that it be rejected because the commissioners felt that it did not adequately guarantee the long-term economic viability of Lexington. The commission recommended that several amendments be made to the agreement, including a provision for a review of the plan every five years to allow for revisions. Any time after the review, the City should be given the option of reverting to town status, consolidating with the county or ending the agreement.

A revised agreement incorporating the majority of the changes recommended by the Commission was agreed to in March of 1986; however, the suggestion that Lexington be able to cancel the agreement on its own was not included. The agreement was modified to allow the City to revert to town status or consolidate with the County. The annual payment to be made by the county to the City was 5 cents per hundred of assessed county real estate value and 7 percent of the county's non-property local tax revenues.

The result was a written agreement, reviewed by the Commission on Local Government and approved by the court, and signed by representatives of the City and County on November 1, 1986. This document specified that:

1. The City of Lexington renounced its statutory right of annexation in perpetuity unless modified by mutual agreement or by operation of law.
2. Rockbridge County agreed to annually pay to the City five (5) cents per one hundred dollars of all real property taxed in Rockbridge County based on the previous year's assessment.
3. Rockbridge County also agreed to pay annually to the City a sum equal to seven (7) percent of the non-property local tax revenues of the County. These revenues include the local option sales tax, consumer or utility tax, business license tax, motor vehicle decals, franchise tax, recordation and probate fees and meals and lodgings tax.

4. Nothing in the agreement precludes the City from reverting to town status or consolidating with the County; however, the agreement would terminate if either of these actions was accomplished.

CITY VERSUS TOWN STATUS

When a city finds itself in economic difficulty, one of the options available to it is to change its governmental structure and revert to a town. This has the impact of removing some of the most expensive of the mandated services such as schools, courts and social services from the direct responsibility of the locality and places them back on the county. Of course, real estate and other taxes previously paid to the city would then be paid to the county as well as the town. The town would continue to provide many of its basic services such as law enforcement, street and sidewalk maintenance, refuse collection, land use control and building inspection.

One of the primary reasons small to mid-sized cities have investigated the option of reverting to a town is due to the state's moratorium on annexation. This moratorium has been in place since the 1980s and, although originally intended for only a limited period of time, has been extended regularly and, in all likelihood will never be removed.

This constricts the natural growth of a city with most new development occurring outside its borders. This severely restricts revenue growth potential while leaving the cost of core services with the city. Towns are not restricted from annexation and so have greater potential to expand their boundaries to include the surrounding development.

Unlike cities, towns are not precluded from annexation by the Commonwealth. As a result they have greater potential to expand their boundaries to incorporate surrounding development. Over the past 10 years many cities have evaluated the possibility of reverting to town status to mitigate their financial difficulties.

In recent years, both South Boston and Clifton Forge have reverted to town status and Bedford is seriously evaluating the option. Reversion plans must be reviewed by the State and approved by the courts and conditions may be attached. Both South Boston and Clifton Forge have had significant time limitations placed on their ability to annex additional land as a result of this process.

The Lexington City Council has reviewed the implications of reverting to town status and has decided that it is not in our best interest to pursue this option. One reason is that the financial status of the City is sound, with the revenue sharing payment contributing significantly to our financial base. As a town, Lexington would not receive this annual support.

The second principal reason is that Lexington does not want to give up the operation of its school system. Financially, the cost per student is less than the surrounding system that it would consolidate with and second, evaluated by any objective measure, Lexington operates an excellent system that reflects the priority Lexington places on a quality education.

RECOMMENDATION: The City should continue to monitor actions by the State Legislature as well as court decisions related to city reversion to ensure that conclusions concerning Lexington's status as a city remain valid.

GOALS

Based on the analysis and discussion contained in this section, the following goals are recommended:

GOAL: The City should continuously improve the efficiency and effectiveness of municipal services provided by City staff and regional entities

RECOMMENDATION: The City should continue to identify ways to share the cost of services and to provide services more economically by working cooperatively with Rockbridge County and Buena Vista.

RECOMMENDATION: The City Manager and City Council should develop a plan to provide for an orderly transition for key staff members.

GOAL: Maintain no less than 20% of general fund operating expenses as unrestricted fund balance

GOAL: The City should create a financial plan that would allow the School Board to either significantly renovate or construct a new Waddell Elementary school.

RECOMMENDATION: The City should budget sufficient funds to properly maintain the existing facilities and infrastructure.

GOAL: The City should continue its conservative fiscal policies while realistically planning for long term service and facility needs desired by its citizens.

GOAL: The City must respond to reductions in support to localities being made by the Commonwealth

RECOMMENDATION: Review State mandates which are no longer being fully funded by the Commonwealth to determine the appropriate level of local support

RECOMMENDATION: The City should continue to explore possible ways to diversify its revenue sources.

RECOMMENDATION: The City should include the identification of mechanisms to ensure that all users of City services pay their fair share of the costs of local government.

RECOMMENDATION: The City should continue to invest in its existing economy including the downtown and the other commercial areas to maximize its revenue potential since there is little potential for major new development in the City.

RECOMMENDATION: The City should be conservative in approving new municipal expenditures since there is little potential for significant new revenues.

GOAL: The City should continue to monitor actions by the State Legislature as well as court decisions related to city reversion to ensure that conclusions concerning Lexington's status as a city remain valid.